

Session II: Maintaining Monetary and Financial Stability

„ Experience of small country pegging to the euro – SLOVAKIA“

Celebration of the 20th Anniversary of the Joint Vienna Institute
The Way Forward: Central, Eastern, & Southeastern Europe

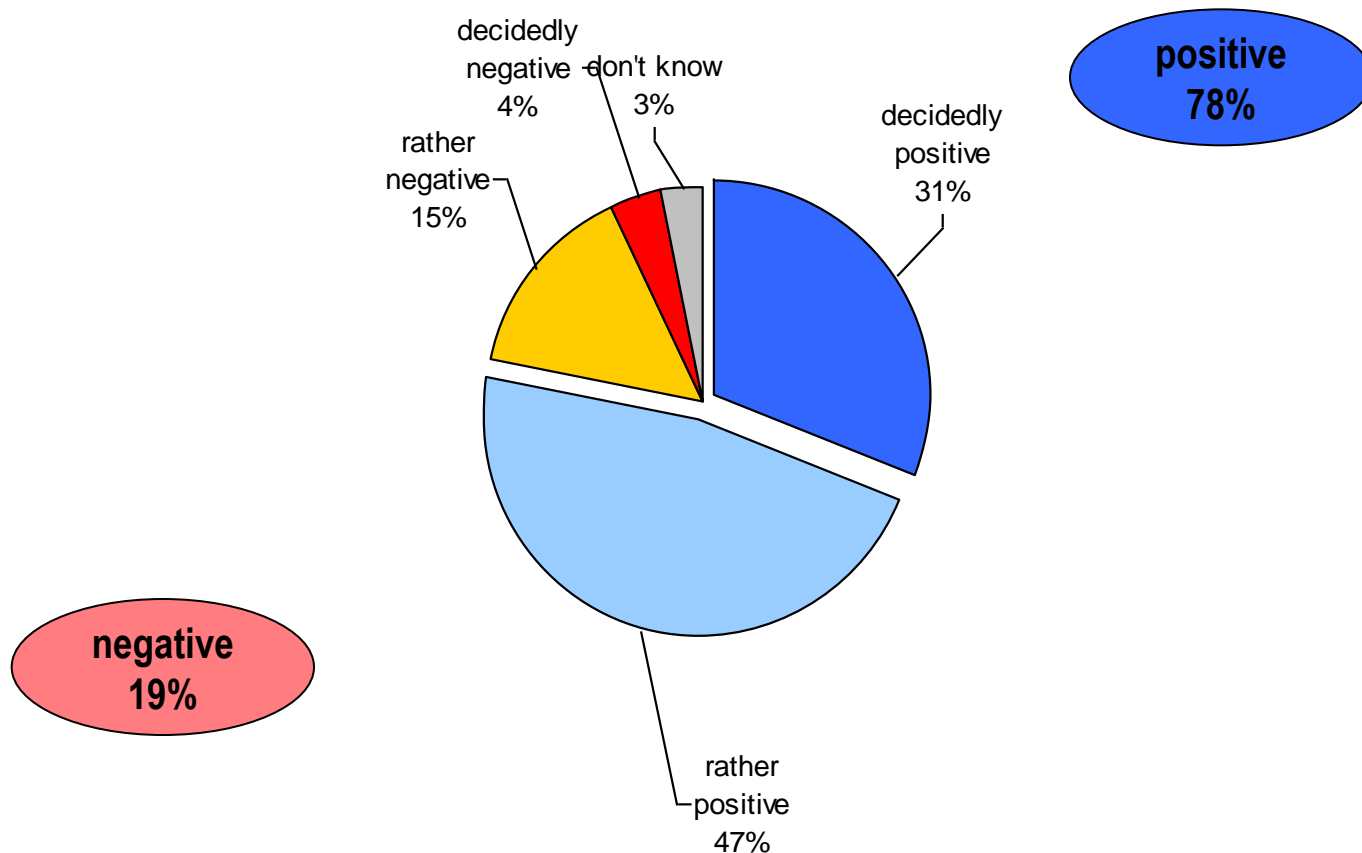
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VÚB, a.s.

Vienna, 12th July 2012



Euro adoption was welcomed by both - general public...

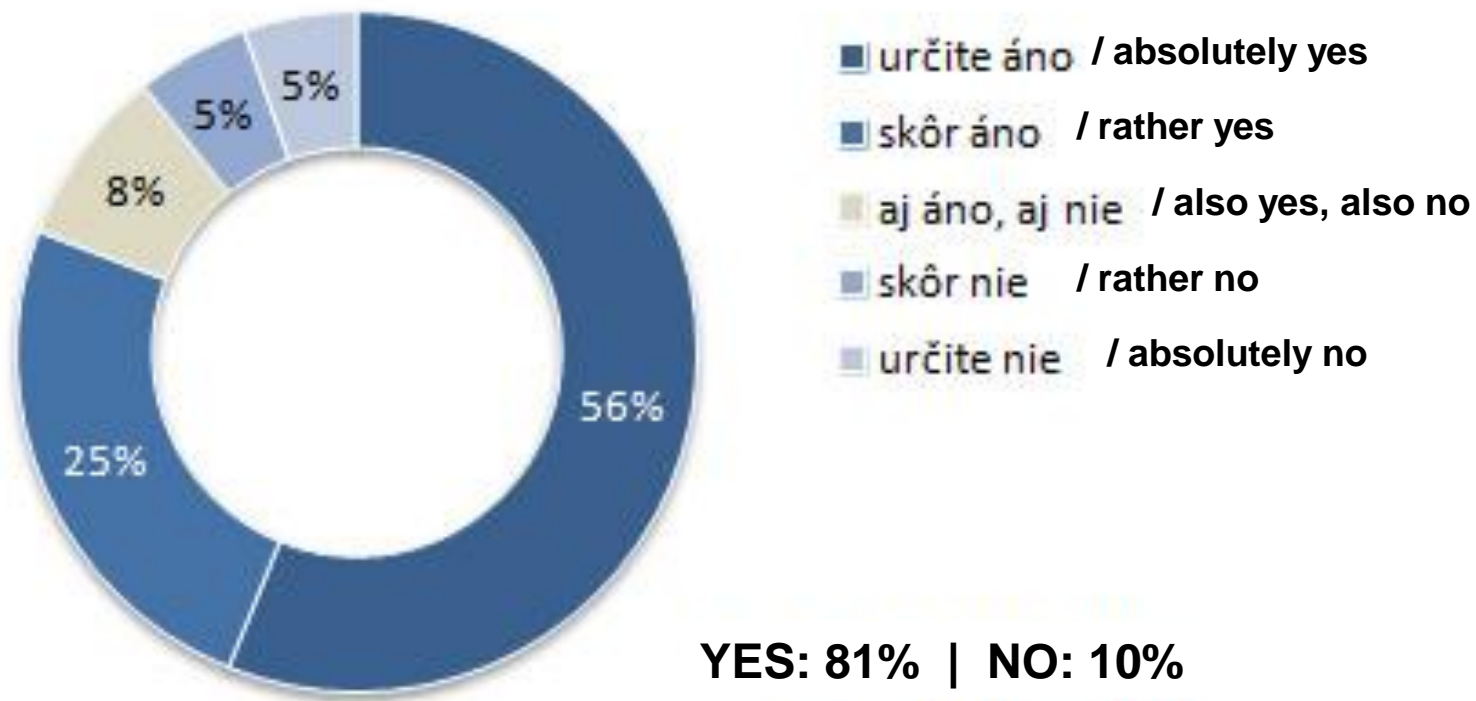
„After one year of euro adoption in Slovakia on January 1, 2009, how do you evaluate this step?“



Source: European Commission, October 2009 http://ec.europa.eu/slovensko/activities/rok_s_eurom__sk.htm

... as well as entrepreneurs

After three years of euro adoption in Slovakia, do you think it was a step in the right direction?



Source: PAS survey, September 2011

Why is Euro adoption in Slovakia considered as a success story?

Before adoption

- Historically strong public support for the euro
- Openness to trade and synchronization of business cycle with the eurozone
- Political commitment

Actual euro adoption

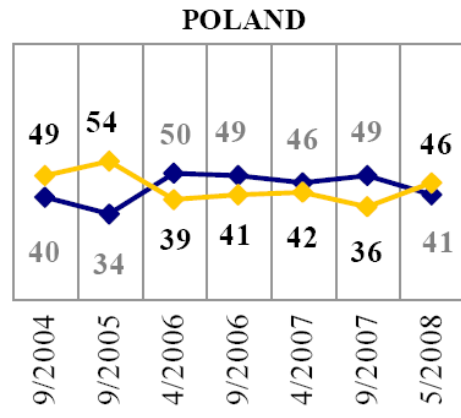
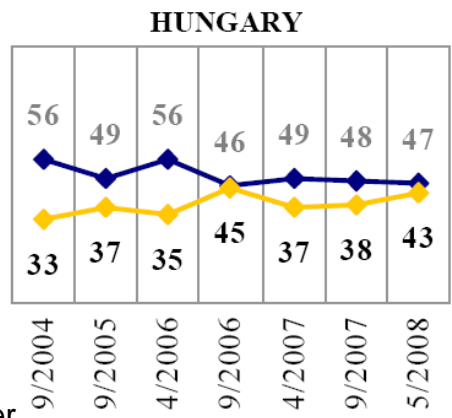
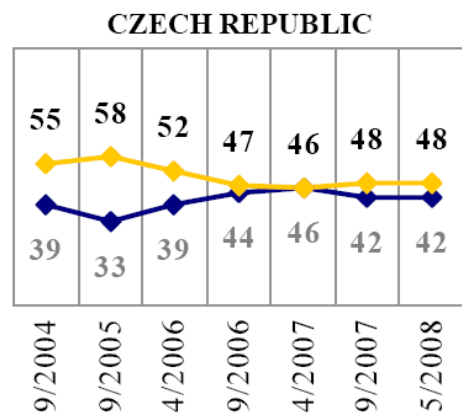
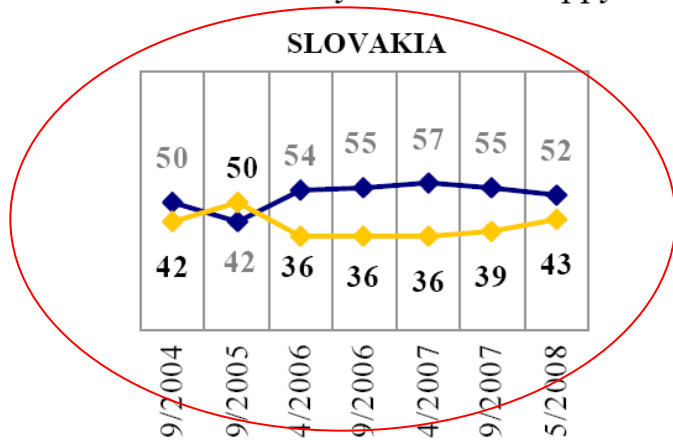
After euro adoption



Among Visegrad 4 countries, support for the euro was consistently the strongest in Slovakia...

Are people happy that the euro will replace their national currency?

■ % very and rather happy ■ % very and rather unhappy

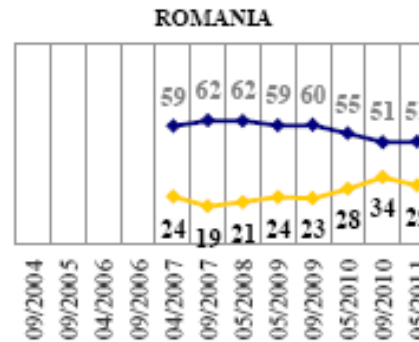
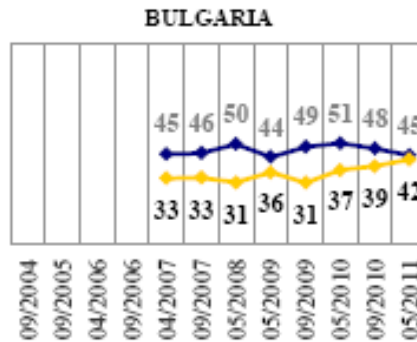
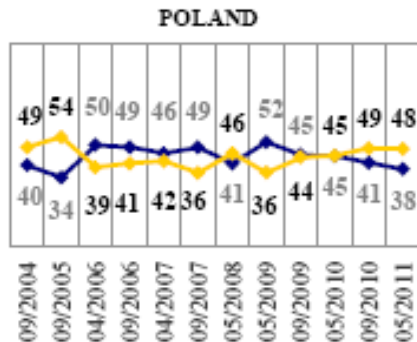
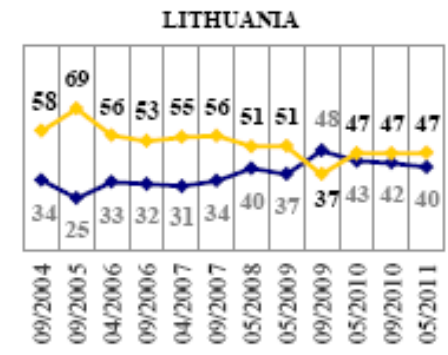
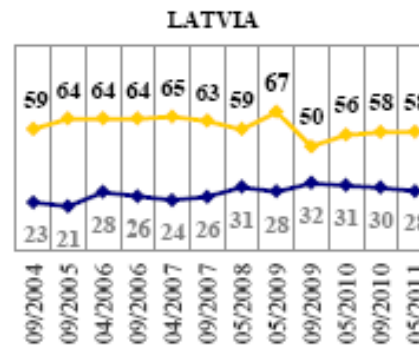
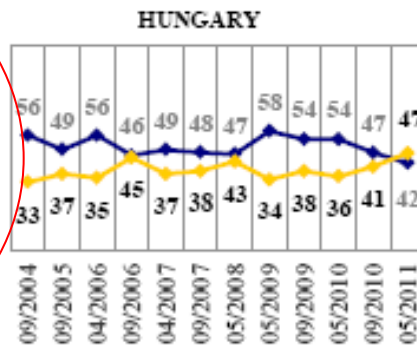
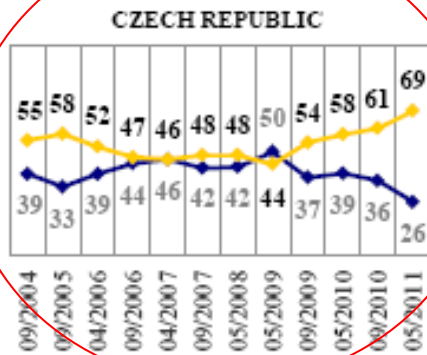


Source: Eurobarometer

...which is in contract especially to neighboring Czech Republic

Are people happy that the euro will replace their national currency?

■ % very and rather happy ■ % very and rather unhappy

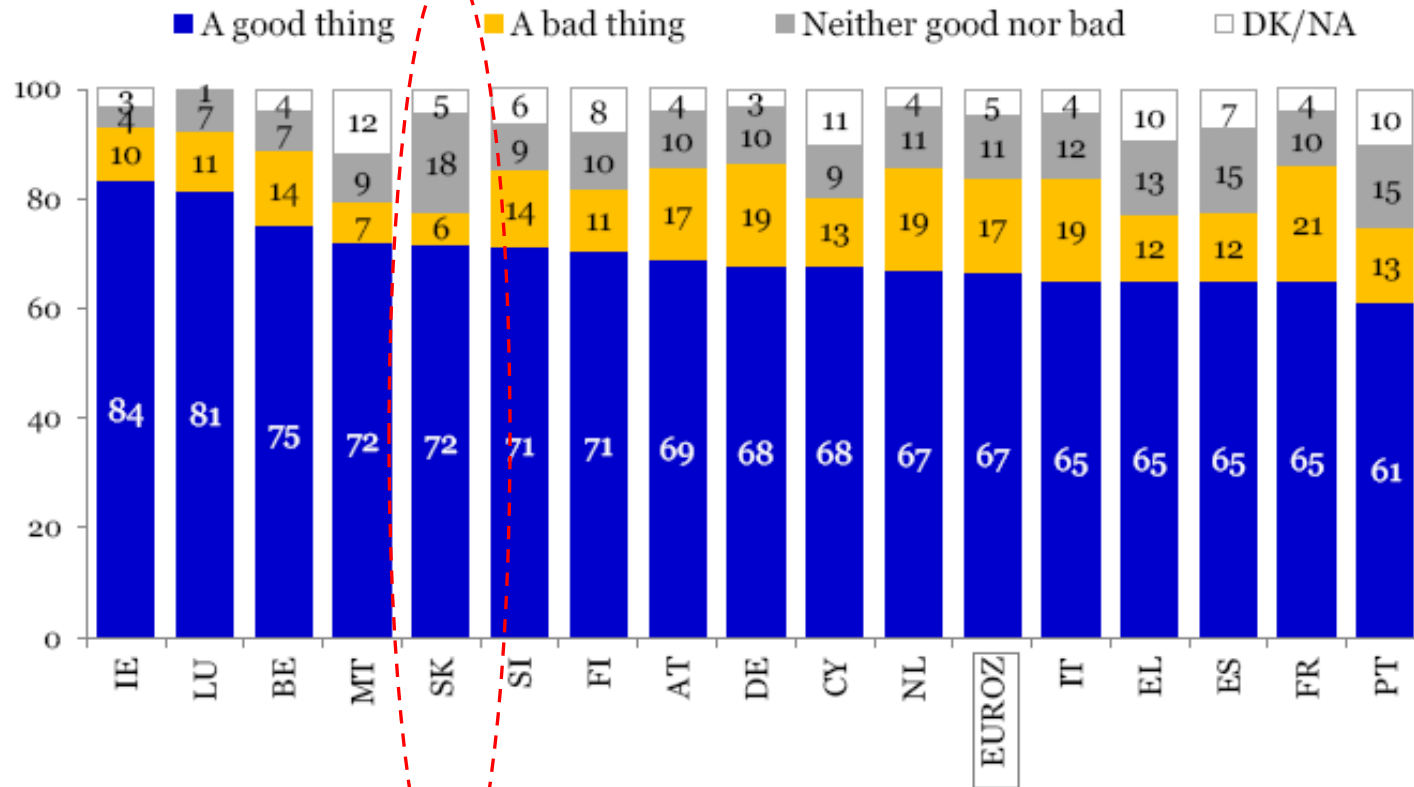


Q12.(2007-2010)/Q15(2006).
Are you personally happy or not that the euro could replace the [CURRENCY]?
% by country

Source: Eurobarometer, 329, August 2011

Slovakia belongs to stronger euro believers also within EMU club

Consequence of having the euro for Europe

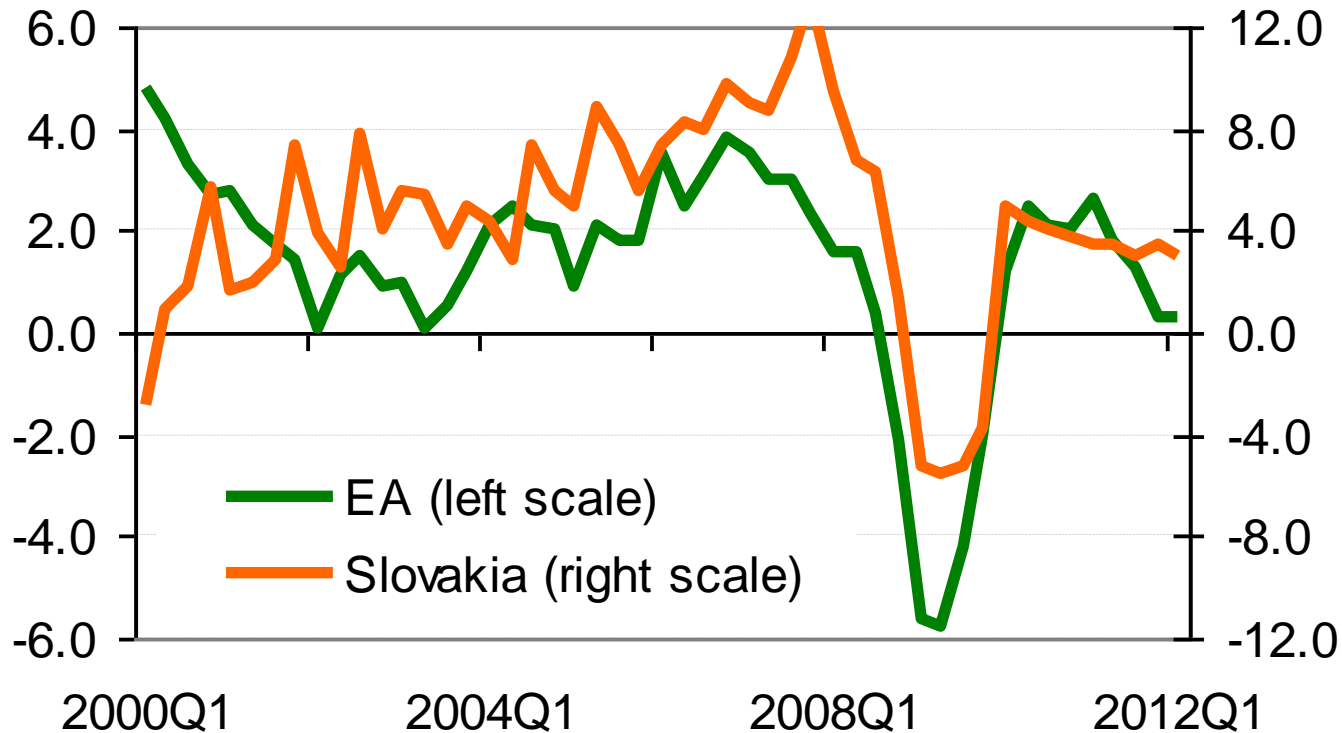


Q1. Generally speaking, do you think that having the euro is a good or bad thing for Europe?
 Base: all respondents, % by country

Source: Eurobarometer, Nr 306, December 2010

Synchronization of Slovak economic cycle with that of EMU was a necessary condition to reap benefits of common currency

Real GDP growth in Slovakia and EMU (% y/y)



Source: Eurostat

Both the government and the central bank have had a common interest in the Euro

2003: Strategy of Euro Adoption in the Slovak Republic

- A joint conclusion of the government and the central bank that it is advantageous to adopt the euro as soon as possible after having met the Maastricht criteria in a sustainable way (2008, 2009)

2004: A Detailed Strategy of Euro Adoption

- Target date for euro adoption 1.1.2009
- Maastricht criteria compliance in 2007
- Approved in parliament by votes of both coalition and opposition



2005: National Plan of Euro Changeover

- Detailed plan of practical steps toward smooth introduction of the euro currency

Why is Euro adoption in Slovakia considered a positive decision?

Before adoption

Actual euro adoption

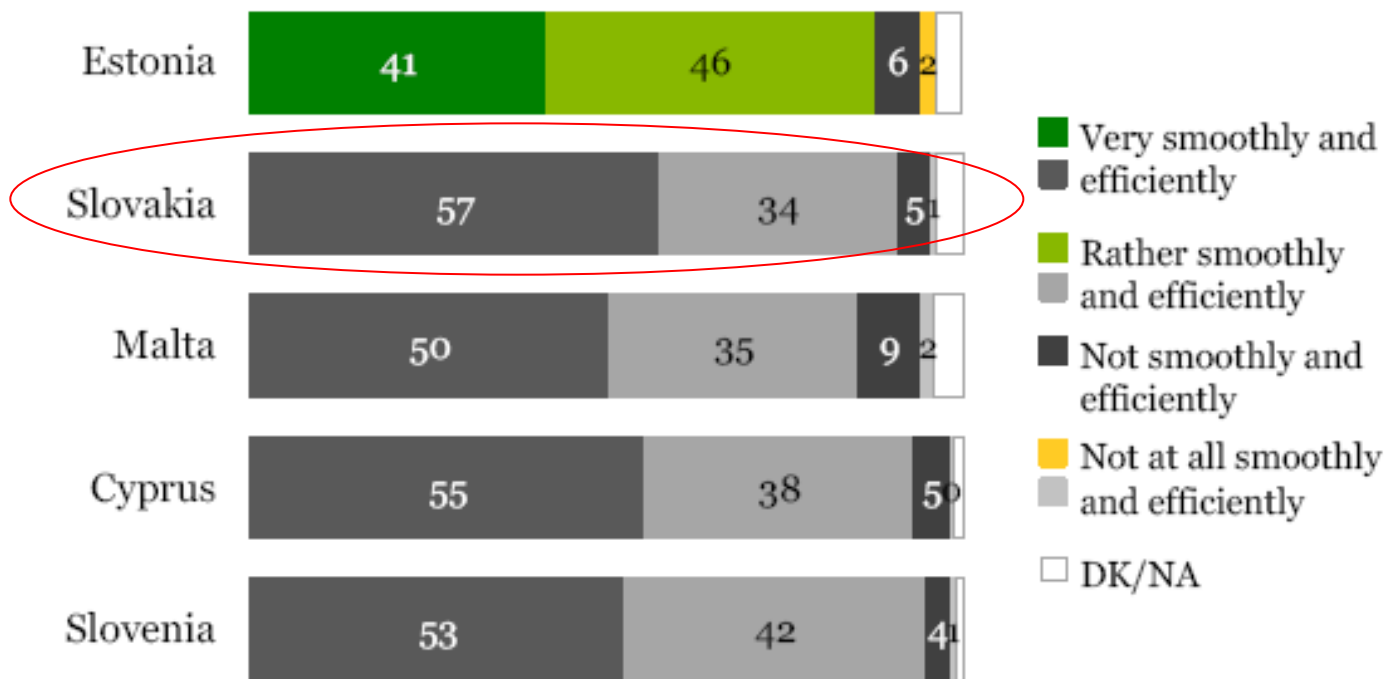
- Smooth changeover

After euro adoption



From the technical point of view, Slovakia's adoption of the Euro was the smoothest in recent history

The success of the changeover



Q12. Overall, did the changeover to the euro in your view happen smoothly and efficiently, or not?
%, Base: all respondents

Source: Eurobarometer, Nr 309, p.7

Why is Euro adoption in Slovakia considered a positive decision?

Before adoption

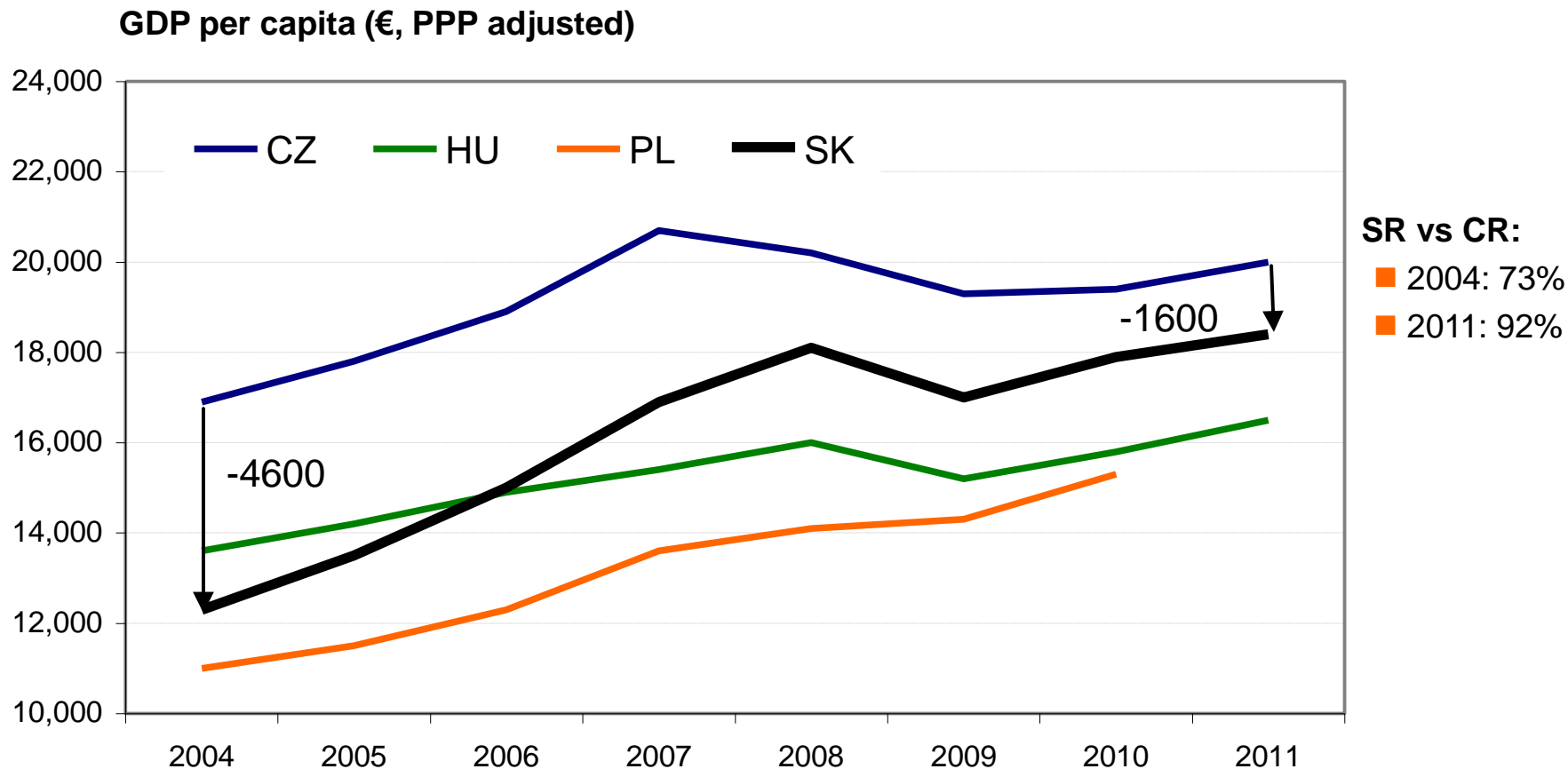
Actual euro adoption

After euro adoption

- Euro adoption led to reforms which accelerated real convergence of Slovak economy
- Companies benefited from lower transaction costs, cheaper capital, and greater potential for foreign trade already before the euro introduction
- Euro proved a financial anchor for Slovakia during the crisis of 2008-9



Euro helped to accelerate real convergence of Slovakia to western standards of living

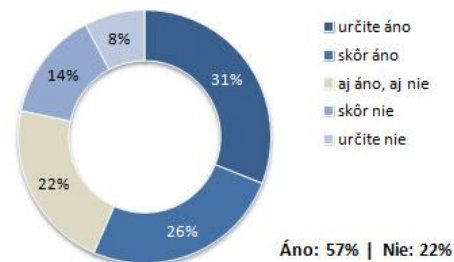


Zdroj: Eurostat, VUB

Euro brought entrepreneurs lower transaction costs, cheaper costs of raising capital, and increased potential for foreign trade

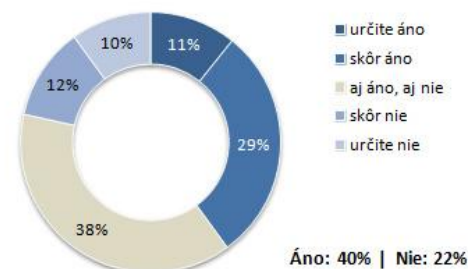
Did euro lower transaction and administrative costs in your company?

■ 57% YES, 22% NO



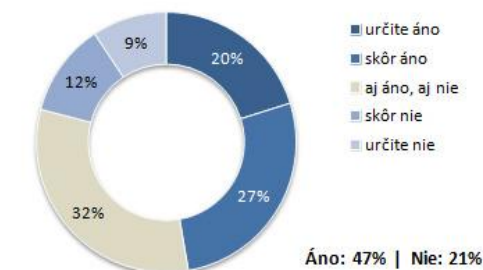
Did euro lower cost of raising capital in your company?

■ 40% YES, 22% NO



Did euro adoption create opportunities to increase potential of your foreign trade in your company?

■ 47% YES, 21% NO

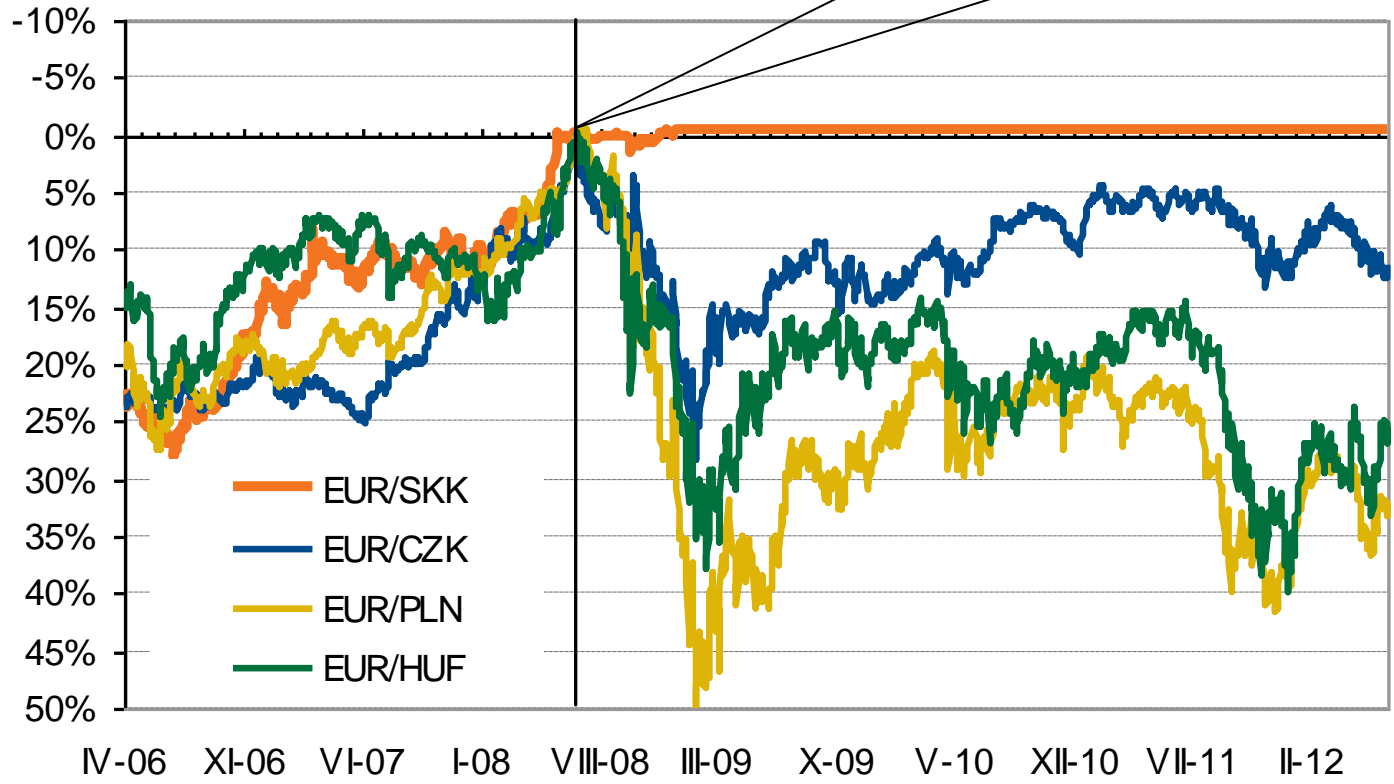


Source: PAS survey, September 2011

Euro helped to anchor the value of Slovak currency...

Currencies of V4 vs the euro (in % vs July 8, 2008)

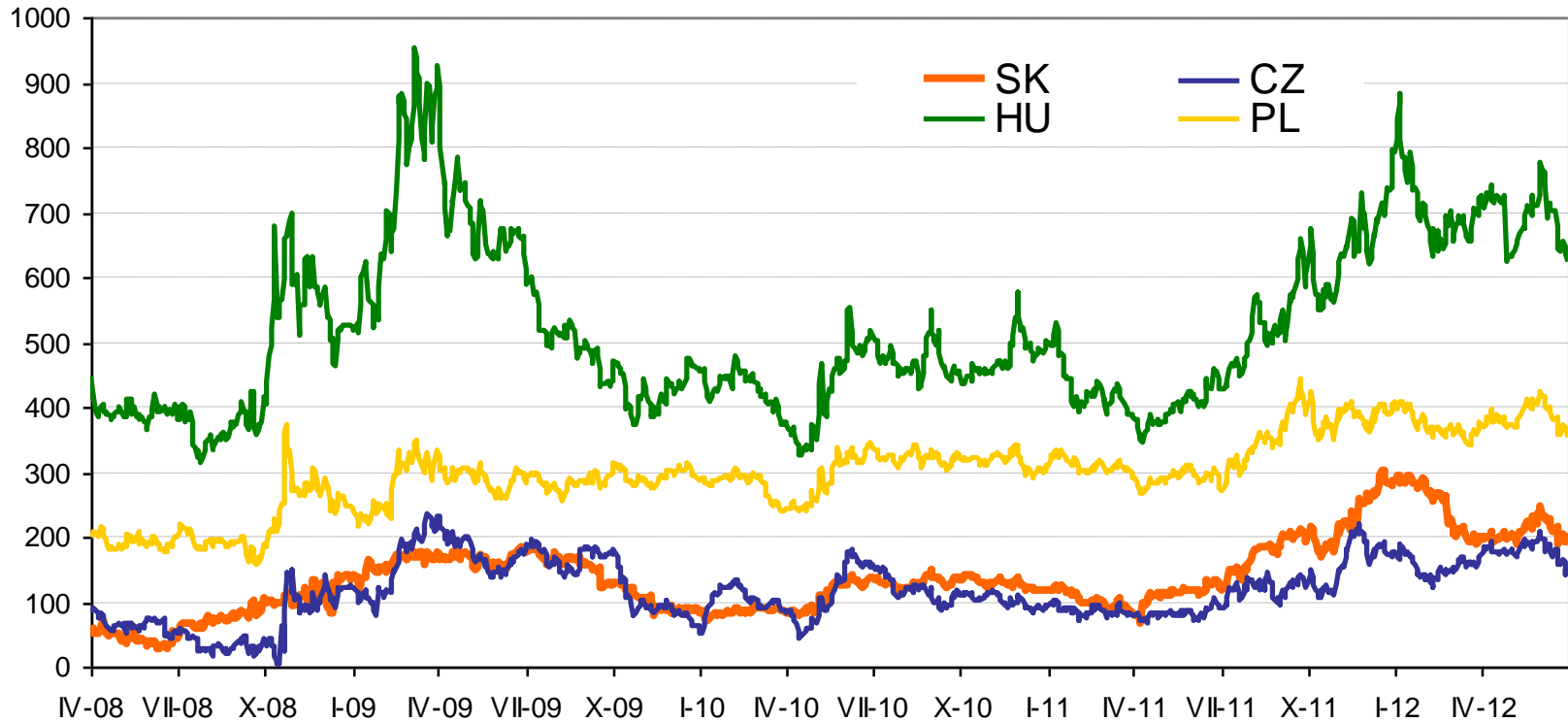
Conversion rate of EUR/SKK 30,126 determined on July 8, 2008



Source: Bloomberg, VÚB

... as well as Slovak yields...

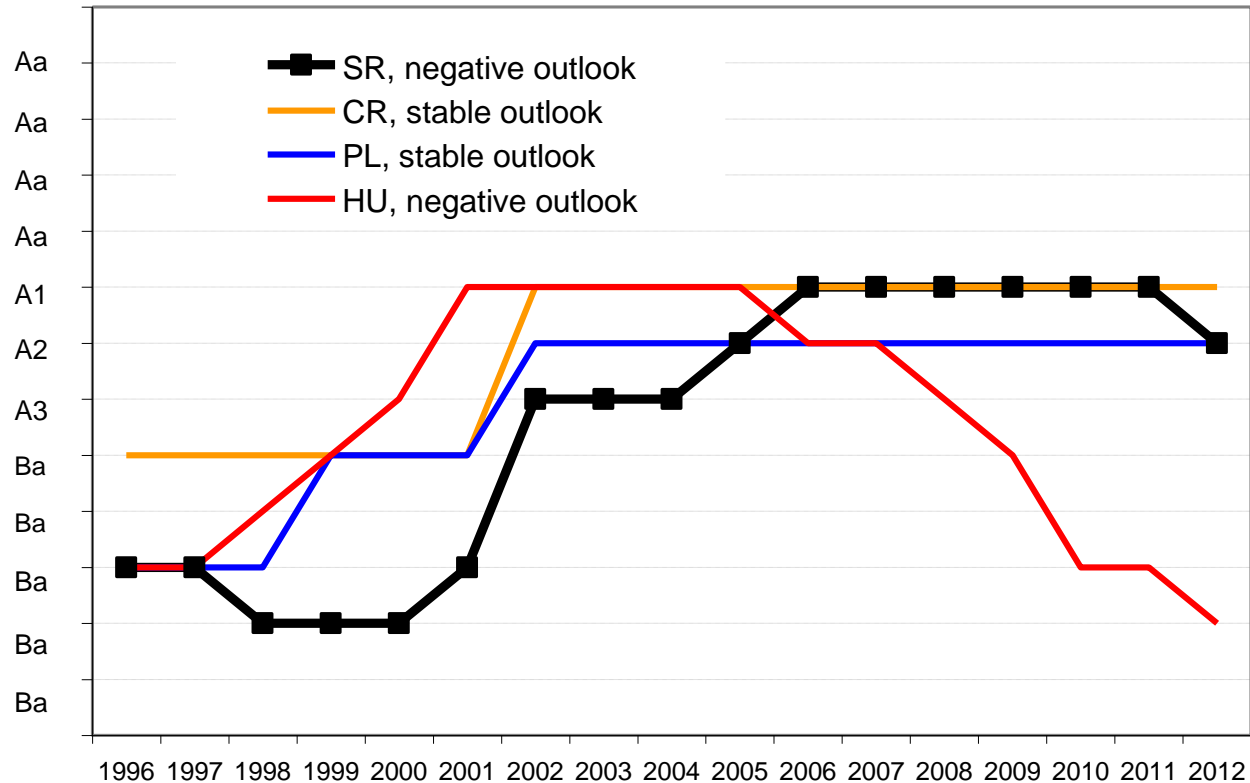
10-Y government bond spreads vs German bunds



Source: Bloomberg, VÚB

...and improve rating of Slovakia

Ratings of V4 countries by Moody's



Source: Moody's, VUB

Conclusion

1. For any small and very open economy is the euro introduction a positive benefit from the perspective of:
 - accelerated reform process
 - real convergence process
 - inhabitants
 - entrepreneurs

The condition is: to continue in the consolidation effort also after the euro adoption.

2. Current open issues in Eurozone and EU should not be a hindrance for some small countries adopting the common currency.

On the contrary: it should be a positive challenge for them.



Thank you for your attention!

